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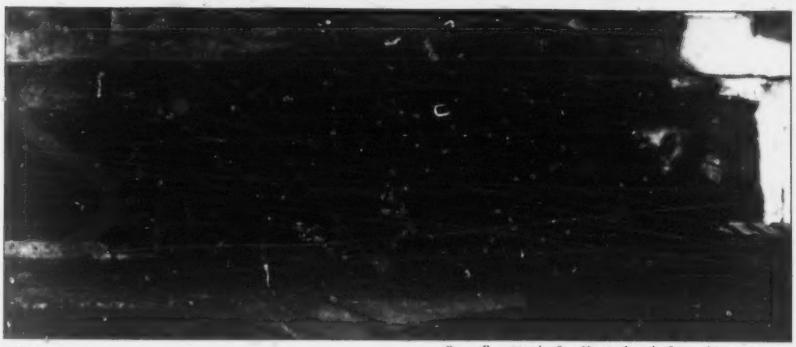

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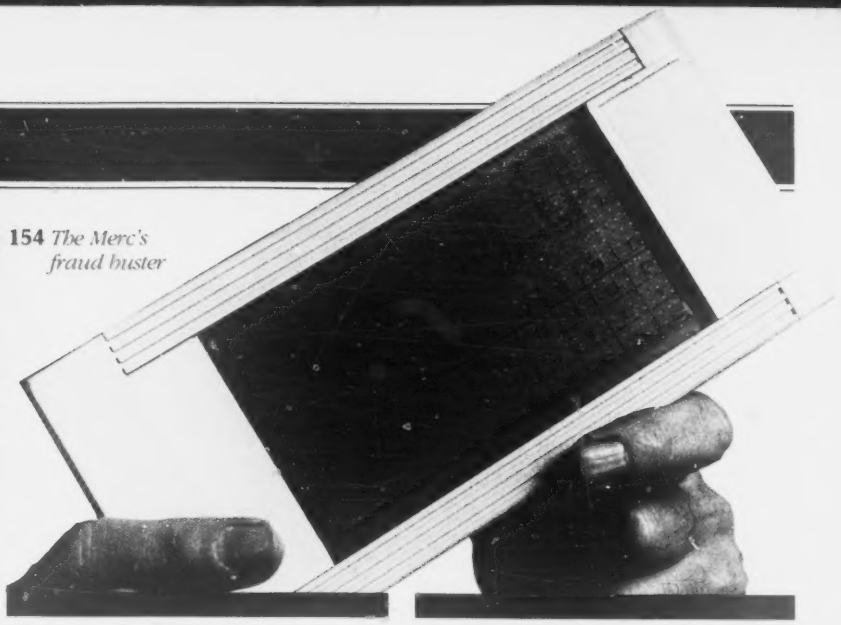

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February 19, 1990 Volume 145 Number 4 Forbes (ISSN 0015 6914) is published biweekly except weekly during two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Canadian second-class postage paid, permit number 9490. Subscription $48 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011.

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The Forbes Index

The Forbes Index
Current 198.1 *
Previous 197.9 †
Percent change 0.1%
*Preliminary †Revised
75 76 77 78 79 80 81 82 83 84 85 86 87 88 89

The December total of new housing starts (not seasonally adjusted) was the lowest since February 1982, which was during a severe recession. The trailing 12-month total of housing starts hit a six-year low. Preliminary figures show the Forbes Index with a 0.5% loss for 1989.

But this variegated economy has its good spots: Both industrial production and manufacturers' new orders hit new highs in December. And the 0.2% gain in the Consumer Price Index for December was the best inflation news since November 1988, when the CPI rose only 0.1%.

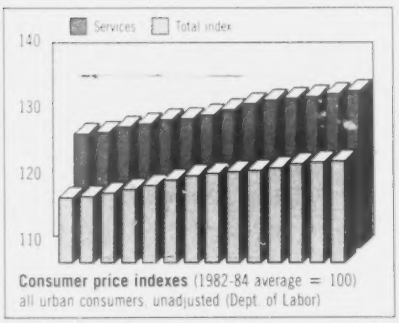
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	10.0%
Auto sales[1] year to date vs. 1988	Ward's Automotive	16.2%
Index of leading indicators November vs. October	Dept. of Commerce	0.1%
Trade balance last 12 months	Dept. of Commerce	-$112 bil
Producer price index[2] November vs. 1988	Dept. of Labor	4.8%
GNP 4th quarter vs. 3rd—annualized growth	Dept. of Commerce	0.5%
NBER Experimental Recession Index[3]	Natl Bureau of Economic Research	6.0%

[1]U.S. based manufacturers only as of 1/20/90. [2]Finished goods [3]December 1989

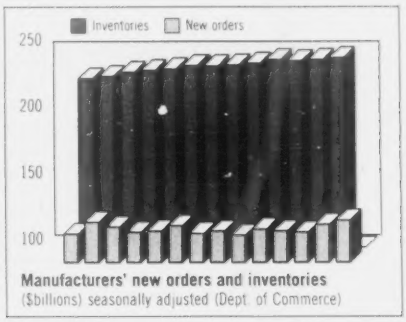
Index Components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

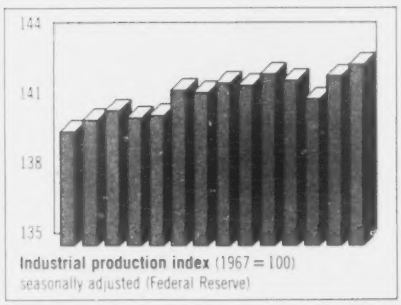
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



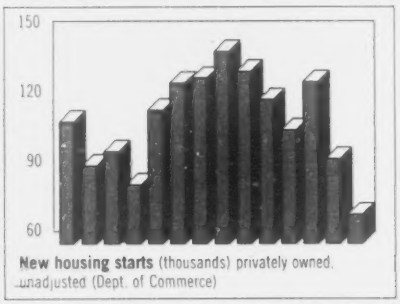
Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)



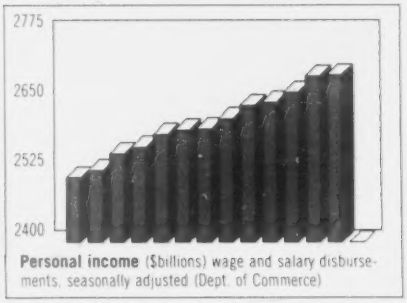
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



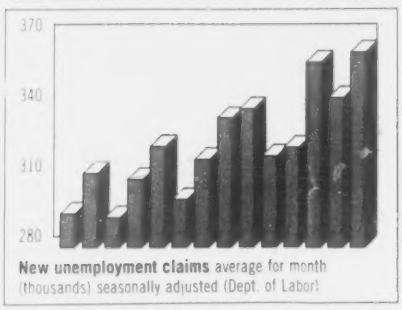
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)



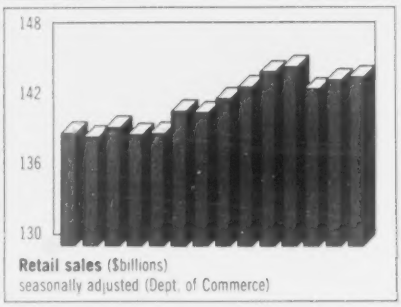
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



New unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail sales ($billions) seasonally adjusted (Dept. of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

every expense item. One that has already attracted his attention: Murphy received a multimillion-dollar advance as part of the inducement to sign a new, five-picture deal with Paramount in June 1987. Paramount memoranda submitted to public court records in the first phase of the trial indicate that Paramount may have assigned one-fourth of this signing bonus, or about $1.7 million, to the cost of *Coming to America*.

Is the $1.7 million really a cost of making the picture? Or is it, as O'Donnell will argue in court, part of Paramount's overhead, and therefore already covered by the studio's 15% overhead fee?

Many of the individual expense items enumerated in Paramount's memos raise eyebrows. For example, $115,000 was included in production costs for 23 weeks of Murphy's 24-hour limousine and driver—that works out to $5,000 a week, not exactly cab fare. Blares O'Donnell: "The day when we're going to just accept these expenses are over. It's got to pass the smell test. Some of these don't even pass the giggle test."

Is O'Donnell talking tough so as to maximize the chances of a juicy settlement for Buchwald? Possibly. But Buchwald says he already makes over $1 million a year, and is fighting Paramount for more than monetary reasons. "I'm trying to make a point about something," he says. "I'm not going to all this trouble to be given some money and told to shut up."

Ironically, if O'Donnell does manage to prove that there are net profits to distribute, Eddie Murphy stands to benefit, too. In addition to 15% of *Coming to America*'s gross receipts (Murphy's take so far amounts to $22 million), his production company is entitled to a share of the net profit of the picture.

"That's fine with Art and me," says O'Donnell. "We'll send him a bill." ■

Many closed-end country funds sell at ridiculous premiums. So where are the short-sellers and the arbs?

How do you say "manipulation" in Japanese?

By Tatiana Pouschine with Nikhil Hutheesing

THE COUNTRY FUNDS are hot, hot, hot. In a sick stock market, the New Germany fund, whose initial price was $15 a share, opened at over $21 on Jan. 25. According to Lipper Analytical Services, Inc., the top five closed-end funds last year were all country funds: the Thai, Taiwan, Brazil, Mexico and Asia Pacific funds, and as a group the five showed average returns of 76%.

Most closed-end funds trade at a discount to net asset value. Not so with many country funds. Recently trading at 29¼, the Spain fund is selling at over twice its net asset value of $13.38 per share. The Austria, Malaysia, Thai and Taiwan funds sell at least 50% over their net asset values. Before the issue of the second fund, the old Germany fund was trading at almost double its net asset value.

What is going on here?

Morgan Stanley's Warren Olsen, president of the Thai and Malaysia funds, argues that emerging markets such as Thailand deserve a premium because they are somewhat restricted. The Korea fund trades at an 83% premium, because foreigners can't access that market directly. Malaysia, admits Olsen, is mostly an open market.

How to justify the premiums on the Europe funds? Says Michael Harkins, a shrewd money manager at Levy, Harkins: "This is absolutely bizarre. If you are willing to get up early and call Germany, duplicating the portfolio would only take an hour."

The probable explanation of these astounding premiums can be detected in their trading patterns. In most cases the stock price rose dramatically in a short time. Who bought as prices rose? "It was always the same names," recalls a broker in discussing the Germany and Spain funds. "Nomura, Yamaichi and Nikko."

Recently, the buying has been tremendous. Between Dec. 21, 1989 and Jan. 18, 16 million shares of the Germany fund changed hands; total capitalization is just 12 million shares.

It appears the pattern is being repeated with the Southeast Asia and Mexico funds. From Sept. 15, 1989 to Jan. 12, when the Thai fund shot up from $19.25 to $31.63, based on weekly data 9.6 million shares changed hands. Total capitalization: 9.6 million shares.

Mario Keller of Deutsche Bank Capital, which runs the Germany fund, has been baffled by the stock's spike. Last Dec. 4, the fund issued 4.5 million new shares, increasing the number of shares outstanding by almost a third. The stock barely

Country funds: Japanese may buy but they don't sell

Almost all the country funds below sell at big premiums. In each case the price rose dramatically in a short time. Massive Japanese buying? The Spain fund rose last summer, the Germany and Southeast Asia funds last fall and this winter. Now the Mexico fund is moving. Japanese buyers put their stocks away reducing the float: Of the Spain fund's 10 million issued shares, for example, only 14,000 shares traded.

	Europe			Southeast Asia			Latin America
	Germany	Spain	Austria	Taiwan	Malaysia	Thailand	Mexico
Initial Public Offering date	7/86	6/88	9/89	12/86	5/87	2/88	6/81
Shares issued (000s)	7,500	10,000	5,000	2,030	7,000	8,333	10,000
Price	$10	$12	$12	$12	$12	$12	$12
Net asset value per share	$9.30	$11.10	$11.16	$11.16	$11.16	$11.16	$11.00
Stock price/NAV	1.07	1.08	1.08	1.08	1.08	1.08	1.09
Recent trading data							
Shares outstanding (000s)	12,000	10,009	5,009	2,994	7,259	9,598	19,718
Shares traded (000s) on 1/19/90	496	14	69	41	105	148	807
Price	$21.80	$29.25	$24.30	$49.00	$21.50	$31.00	$12.89
Net asset value per share	$12.08	$13.38	$13.23	$27.43	$13.94	$18.58	$12.76
Stock price/NAV	1.80	2.19	1.84	1.78	1.54	1.67	1.01
Unusual price rise period	12/21/89-1/18/90	7/21/89-9/29/89	12/22/89-1/19/90	10/27/89-12/29/89	11/3/89-1/2/90	9/15/89-1/12/90	12/22/89-1/19/90
Percent rise	85%	147%	57%	31%	100%	64%	35%

dropped.

The explanation? Evidence suggests that Japanese brokerage houses are heavily invested in each fund shown in the table. FORBES estimates that they own up to 80% of both the first Germany fund and the Spain fund. They most likely also own a lion's share of the Thai, Malaysia and Taiwan funds, among others.

Why would the Japanese be buying so frenetically? Apparently, these funds are an easy sell to retail Japanese customers. To sell the Spain fund, for example, Japanese brokers tell their customers that the profits they will make as Spain benefits from European unity in 1992 will fund their tickets to the 1992 Olympic Games—to be held in Barcelona.

Do the brokerage houses make money aside from commissions? Possibly. If they trade for their own account while filling myriad retail orders, they would book substantial profits as the share prices rose.

A golden opportunity for arbitragers? Can't they sell the funds short and duplicate the underlying portfolios on the long side? Very difficult. The arbs can't borrow the German or Spain fund shares at any price. Brokers say stock loan departments at U.S. brokerage houses have no shares to lend. Shares of the other funds mentioned are all becoming scarce. That's because once the Japanese brokers take delivery of the stock certificates, they don't lend the shares out.

Through this simple and legal means, the Japanese have rid themselves of pesky short-sellers. If there are no lenders, there can be no short-selling to check excessive prices. ■

Rolls-Royce Motors has staged a remarkable recovery. Is that why Sir Ronald Brierley has accumulated a big stake in Rolls' parent company?

The pride of New Zealand?

Financial Times

New Zealand's Sir Ronald Brierley
A nose for undervalued assets.

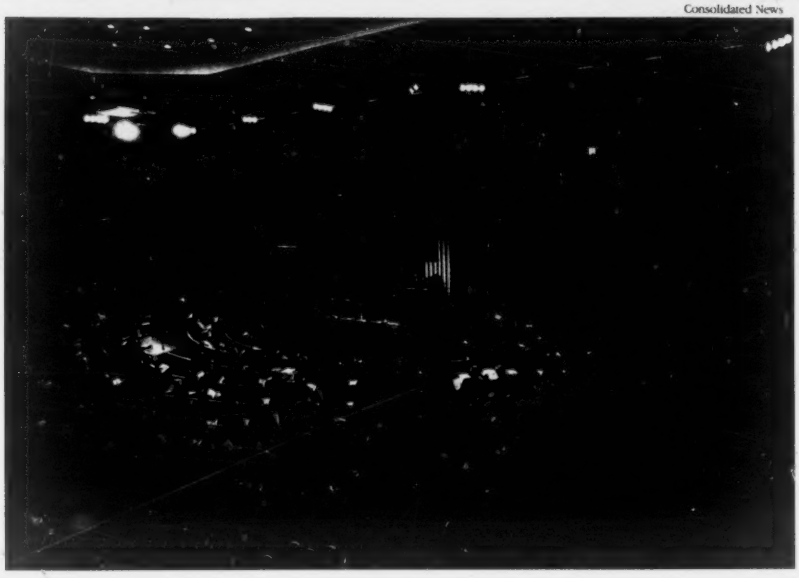
By Peter Fuhrman

AMONG CONSUMER BRAND NAMES, few are grander than Rolls-Royce Motors. Since 1904 the British company has fastidiously hand-built a total of 110,000 luxurious automobiles. New, these Rolls-Royces and Bentleys sell for $115,000, at a minimum, with up to a two-year wait for delivery. Not without reason has Rolls-Royce Motors been called "the pride of Britain and the envy of the world."

In terms of ownership, however, Rolls-Royce Motors is becoming the pride of New Zealand. Since 1980 it has been owned by British industrial conglomerate Vickers Plc. Through a Hong Kong subsidiary, Industrial Equity (Pacific) Ltd., New Zealand investor Sir Ronald Brierley has quietly amassed a 17.5% stake in Vickers.

"Vickers is a mish-mash, undervalued on the stock exchange and with-

Consolidated News



A new list of the 50 richest lawmakers shows that fervent opponents of congressional pay raises need them the least.

America's richest congressmen

By Laura Saunders

CAPITOL HILL's energetic news sheet *Roll Call* produced a particularly lively issue Jan. 22, 1990. Drawing on our list of The Forbes Four Hundred *(Oct. 23, 1989)* and its own extensive digging, *Roll Call* published its roster of the 50 richest congressmen *(see table, p. 48)*.

It was no easy feat, notes editor James Glassman, because federal financial disclosure rules often conceal more than they bare. Senator Frank Lautenberg (D–N.J.), for example, discloses his net worth as $2 million, whereas *Roll Call* estimates his net worth at $45 million. Senator Edward Kennedy (D–Mass.), who makes a point of keeping his personal wealth top secret, discloses his worth as $800,000; *Roll Call* figures the real number is close to $40 million.

The list is timely because it highlights the bitter divide between the haves and have-nots now plaguing Capitol Hill. This split surfaced last year in the rancorous debates over House and Senate pay raises, and hasn't healed yet. Says Norman Ornstein, a veteran Congress watcher at the American Enterprise Institute: "Many less wealthy lawmakers are still angry that richer ones voted against raises they didn't need, and then were sanctimonious about it."

During one set of debates, for example, Senator Herbert Kohl (D–Wis.), a first-termer who financed his campaign with $6 million of his own, declared, "When I was elected a year ago, I signed a contract with the people of Wisconsin to serve as their Senator for $89,500 a year. I don't intend to try to renegotiate the contract." But in the end he voted for the raise.

Lautenberg, a multimillionaire who founded ADP, the data processing firm, called the hike "unwarranted and excessive."

A comparison of *Roll Call*'s list with key votes shows that two-thirds of the richest senators voted against pay raises. Over half of the richest representatives voted against the raise, despite the fact that the House leadership lobbied heavily for it.

The issue will resurface soon because the last session ended with an unresolved mess. As things stand, House members voted to raise their pay from the current $89,500 to $124,400 by 1991, but to abolish honoraria for speeches and other public appearances by then. Under the old law, representatives could earn up to $26,850 a year in honoraria, which many used to boost their income.

But the Senate, home to 19 of Congress' 50 richest, refused to follow the House's lead. Instead, senators voted themselves only an $11,900 raise by 1991. They also opted to continue allowing honoraria, though they cut the maximum from $35,800 to $23,568.

This created an anomaly: Senators are now the only members of the federal government still able to earn honoraria. This fact is sure to draw media scrutiny and public criticism. Which is why the Senate will soon revisit the question of honoraria, and will likely ban them. And that will create another anomaly, namely, that senators may soon be earning less than representatives for the first time in years.

Ordinary taxpayers, meanwhile, may be interested in implications for Keogh plans lurking in this strife. These plans, which are in effect pension plans for self-employed workers (including congressmen with honoraria), weren't cut in 1986, as were Individual Retirement Accounts. You can still deduct Keogh contributions up to $30,000 (more in some cases).

Some cynics on Capitol Hill believe Keoghs were spared because congressmen could make handy use of them in a way the new ethics rules now forbid. Under the old system, members could take all their honoraria—often tens of thousands more than the limits of $26,850 in the House and $35,800 in the Senate—and run them through their personal tax returns. This increased their self-employment income, and thus the allowable Keogh deduction, which is based on that figure. Then they donated the excess

over the honoraria limits to favorite charities, reducing taxable income to its real level. Now that this tax strategy is out, some observers believe that new limits on Keogh plan contributions are in store.

How do the richest lawmakers stand on capital gains? As of yet, no clear answer has emerged. About half of the senators on the list voted against last year's capital gains tax reduction proposal, helping kill it. But this was less a vote on the tax than a show of support for Senate majority leader George Mitchell (D–Me.). This year, they'll probably get to show how they really feel about capital gains. Keep the list handy. ■

Congress' Nifty Fifty

***Roll Call*'s list of the richest senators and representatives gives truer estimates of wealth than the fuzzy figures on federal financial disclosure forms. A box with an "X" denotes alawmaker who voted against pay raises last year, enraging poorer members who had to brave political ruin to push the raises through.**

1.	**Sen. John Heinz (R-Pa)**	**$460 million**
	H.J. Heinz inheritance; disclosed wealth $16 million	
2.	**Sen. Herbert Kohl (D-Wis)**	**$250 million**
	Former grocery magnate; disclosed wealth $45 million	
3.	**Sen. Jay Rockefeller (D-W Va)**	**$200 million**
X	Rockefeller inheritance; disclosed wealth $4.8 million	
4.	**Rep. Amory Houghton (R-NY)**	**$100 million**
	Corning Glass heir; disclosed wealth $7 million	
5.	**Sen. Frank Lautenberg (D-NJ)**	**$45 million**
X	Founded ADP; disclosed wealth $2 million	
6.	**Sen. Edward Kennedy (D-Mass)**	**$40 million**
	Inheritance; disclosed wealth $800,000	
7.	**Rep. Norm Sisisky (D-Va)**	**$30 milliion**
	Former Pepsi distributor; disclosed wealth $21 million	
8.	**Sen. John Danforth (R-Mo)**	**$25 million**
X	Ralston-Purina heir; disclosed wealth $14 million	
9.	**Sen. Dennis DeConcini (D-Ariz)**	**$20 million**
X	Real estate holdings; disclosed wealth $11 million	
10.	**Sen. Chuck Robb (D-Va)**	**$13 million**
	Banks and LBJ inheritance; disclosed wealth $9.8 million	
11.	**Sen. Claiborne Pell (D-RI)**	**$11 million**
X	Inheritance and investments; disclosed wealth $7 million	
12.	**Rep. Bill Green (R-NY)**	**$8 million**
	Supermarket heir; investments; disclosed wealth $7 million	
13.	**Rep. Nancy Pelosi (D-Calif)**	**$7.5 million**
	Real estate and investments; disclosed wealth $5 million	
14.	**Rep. Sid Yates (D-Ill)**	**$7.1 million**
X	Lawyer; real estate and public housing authority bonds	
15.	**Sen. Lloyd Bentsen (D-Tex)**	**$7 million**
	Texas ranches, inheritance; disclosed wealth $5 million	
16.	**Sen. Bob Graham (D-Fla)**	**$6 million**
	Real estate; inheritance; disclosed wealth $3 million	
17.	**Rep. Pete Stark (D-Calif)**	**$5.2 million**
	Founded two banks by age 31; real estate; oil and gas	
18.	**Rep. John Spratt (D-SC)**	**$5.1 million**
X	Lawyer; banker; real estate; disclosed wealth $2.3 million	
19.	**Sen. John Warner (R-Va)**	**$5 million**
X	Juicy divorce from first wife (a Mellon) netted a bundle	
20.	**Sen. Nancy Kassebaum (R-Kan)**	**$4.3 million**
X	Radio station; investments; disclosed wealth $2 million	
21.	**Rep. Owen Pickett (D-Va)**	**$4.2 million**
X	Real estate; disclosed wealth $2.5 million	
22.	**Sen. Terry Sanford (D-NC)**	**$4.1 million**
X	Investments; disclosed wealth $2.7 million	
23.	**Rep. Glenn Anderson (D-Calif)**	**$4 million**
X	Real estate, investments; disclosed wealth $2.4 million	
24.	**Rep. J.J. Pickle (D-Tex)**	**$3.6 million**
	Owned advertising and PR firm; investments	
25.	**Rep. Jimmy Quillen (R-Tenn)**	**$3.5 million**
	Investments, including 100,000 shares of Pan Am	
26.	**Rep. Joe Kennedy (D-Mass)**	**$3.4 million**
	Inheritance; investments	
27.	**Sen. Frank Murkowski (R-Alaska)**	**$3.3 million**
X	Former banker; real estate; oil and gas	
28.	**Rep. Ralph Hall (D-Tex)**	**$3.2 million**
X	Former president, Texas Aluminum Corp.; investments	
28.	**Rep. Stan Parris (R-Va)**	**$3.2 million**
	Former pilot and practicing attorney; investments	
30.	**Rep. Jack Brooks (D-Tex)***	**$2.9 million**
	Stock; real estate; mineral rights	
30.	**Rep. Harry Johnston (D-Fla)**	**$2.9 million**
X	Lawyer from wealthy West Palm Beach family; investments	
30.	**Rep. Nita Lowey (D-NY)**	**$2.9 million**
X	Former NY state official married to lawyer; investments	
30.	**Sen. John McCain (R-Ariz)**	**$2.9 million**
X	Wife is heiress to beer distributorship; real estate	
34.	**Rep. Porter Goss (R-Fla)**	**$2.8 million**
X	Former CIA agent; newspaper publisher; investments	
35.	**Rep. Mel Levine (D-Calif)**	**$2.7 million**
	Stocks, bonds, real estate; inheritance trust	
35.	**Rep. Tom Lewis (R-Fla)**	**$2.7 million**
X	Former Pratt & Whitney Aircraft executive; investments	
35.	**Rep. Cliff Stearns (R-Fla)**	**$2.7 million**
X	Real estate (Florida motels)	
38.	**Rep. James Clarke (D-NC)**	**$2.6 million**
X	Real estate; stock; inheritance trust	
39.	**Rep. Tom McMillen (D-Md)**	**$2.5 million**
	Ex-pro basketball star has investments and NBA pension	
40.	**Rep. Paul Gillmor (R-Ohio)**	**$2.4 million**
X	Former president, Ohio Senate; investments	
40.	**Rep. Mel Hancock (R-Mo)**	**$2.4 million**
X	Owner, burglar alarm installation firm; investments	
40.	**Rep. Craig James (R-Fla)**	**$2.4 million**
X	Investments, including Jamaican farmland; law partnership	
40.	**Rep. Marvin Leath (D-Tex)**	**$2.4 million**
	Former bank owner; investments	
44.	**Rep. Virginia Smith (R-Neb)**	**$2.3 million**
X	Former owner, wheat ranch; investments	
45.	**Sen. Harry Reid (D-Nev)**	**$2.2 million**
X	Lawyer who chaired Nevada Gaming commission; real estate	
45.	**Rep. Fred Upton (R-Mich)**	**$2.2 million**
	Grandson of founder, Whirlpool appliance co.; investments	
47.	**Rep. Jimmy Hayes (D-La)**	**$2.1 million**
	Real estate developer	
47.	**Rep. Jim Leach (R-Iowa)**	**$2.1 million**
X	Former gas company president; investments	
47.	**Sen. Richard Shelby (D-Ala)**	**$2.1 million**
X	Lawyer; real estate	
50.	**Sen. Rudy Boschwitz (R-Minn)**	**$1.8 million**
	Plywood	

*Did not vote on HR-3660.

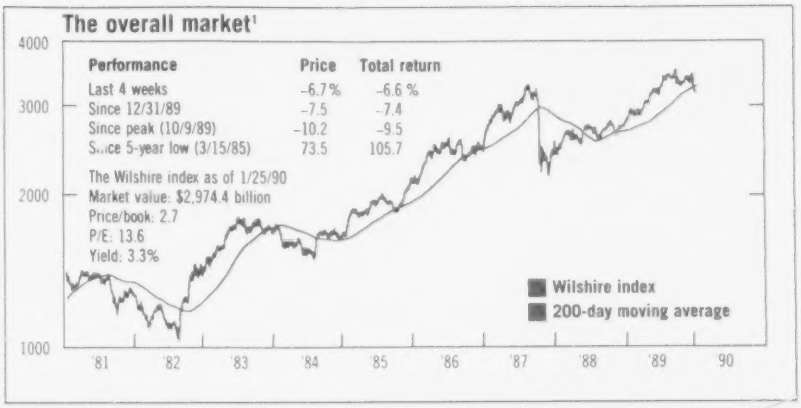
Sources: Congressional Quarterly; Roll Call

The Forbes Wall Street Review

Edited by Eric S. Hardy

Where lies the bottom? The Dow industrials are off about 7% so far this year. Prudential-Bache analyst Larry Wachtel says "purging the excesses of 1989" caused January's poor performance. He thinks the recent bear trend could carry the market down to the 2,350 level by midyear.

Is the market overpriced? Unless earnings fall precipitously, not terribly. The price/earnings ratio for the Wilshire index is 13.6, against 15.9 two years ago. (Note: A computer bug at Wilshire Associates caused it to overstate the P/E last month by five points.)



Closeup on the Market

Index or investment	Price	2-week change
Wilshire index 6,000 stocks, capitalization weighted	3,163.07	-6.4%
Wilshire index 6,000 stocks, equal weighted	20.92	-4.2
Dow Jones industrials 30 stocks, divisor-adjusted price average	2,561.04	-7.2
S&P 500 Capitalization weighted cross-section, major stocks	326.08	-6.4
NYSE Capitalization weighted, all listed common stocks	180.61	-6.3
Amex Capitalization weighted total return: stocks, warrants	353.64	-6.8
Nasdaq Capitalization weighted, all issues except warrants	425.24	-5.3
Amex international market index Capitalization weighted, 50 largest ADRs	322.31	-3.5

Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[2] (EAFE) a dollar denominated capitalization weighted index	994.60	-4.1%
Institutional[3] Approximately 200 stocks with high institutional ownership	107.54	-5.2
Individual[3] Approximately 200 stocks with low institutional ownership	103.56	1.5
Technology Hambrecht & Quist index	246.94	-4.0
Gold[4] (Composite quote of 6 major dealers)	$416.60	0.5
Yen[4] (per $U.S.)	143.58	-1.3
Commodity index[4] (CRB futures index, 1967 = 100)	231.43	-1.5
Oil[4] (W Texas Intermediate)	$21.60	-6.7
T Bills[4] (90 days)	7.68%	14 basis points
Broker loan rate[4]	9.25%	unchanged

The Best Performing Stocks

Company	Price	2-week change	P/E	Reason
Aristech Chemical	25¼	33%	9	Management group in conjunction with Mitsubishi Corp makes $26-per-share acquisition bid
Rorer Group	61	24	29	Rhône-Poulenc offers $73 per share for 68% of company
Cray Research	43	15	11	Several brokerage firms raise 1990 earnings estimates
Sun Microsystems	18⅞	10	33	Company takes steps to strengthen its balance sheet
Varity	2⅝	10	6	Gain of ¼ point translates into big percentage move for this low-priced stock

The Worst Performing Stocks

Company	Price	2-week change	P/E	Reason
Bank of New England	3⅛	-58%	1	Adds $1.6 billion to loan-loss reserves
First Executive	3⅜	-56	8	Announces substantial writedown of junk bond portfolio
Hilton Hotels	63½	-23	26	Doubts surface about proposed acquisition of company
Stryker	20¼	-23	26	Chicago Corp brokerage firm issues negative report
Prime Motor Inns	13⅜	-21	6	Fallout continues as result of lower earnings estimates

Note: All data for periods ending 1/25/90. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $500 million or more. [1]Capitalization-weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Morgan Stanley Capital International Perspective. [3]For period ending 1/26/90. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [4]Knight-Ridder Financial Information. [5]A basis point is equal to one-hundredth of a percentage point.

Forbes/TUCS Institutional Portfolio

Edited by Steve Kichen

Who made the most money?

Investment	Value of $10,000 invested 12/31/79[1]	Change last quarter
Institutional equity account[2]	$43,607	–0.1%
Institutional balanced account[2]	40,083	2.2
Institutional fixed income account[2]	30,576	3.4
Wilshire index	46,584	0.6
S&P 500	49,973	2.1
Shearson Lehman Govt & Corp	31,725	3.6
Treasury index	23,524	2.0

Segment performance and cash flows

Segment	Most recent quarter: median total return	Most recent quarter: shift in institutional holdings
Equity	0.1%	–0.3%
Fixed income	3.5	–0.9
Cash equivalents	2.2	–0.1
Convertibles	–0.9	0.1
Other[3]	1.1	0.0
Total	1.0	–1.1

Institutional equity managers were clobbered last quarter. Total return of the median equity portfolio was 0.1%, vs. 2.1% for the S&P 500. Data from the Trust Universe Comparison Service (TUCS), which monitors $400 billion in pension assets held in 4,000 portfolios, show smaller-capitalization stocks hurt the pros. Thus, while the capitalization-weighted S&P 500 shows a gain for the quarter, an equal-weighted version of this index is off 2.1%. The variation in the Wilshire index, which measures 6,000 issues, is even more dramatic: The capitalization-weighted Wilshire rose 0.6% while the equal-weighted index was down 6.7%.

George Wolfe, a vice president at Santa Monica, Calif.-based Wilshire Associates, which processes the TUCS database, says the institutions were also hurt by overexposure to the finance sector and underexposure to energy and utilities.

The best place to invest last quarter was in fixed-income investments. The median such account in the TUCS universe had a total return of 3.5% while the Shearson Lehman Government/Corporate index was up 3.6%.

Turner Broadcasting and Newmont Gold again showed up on the list of issues with significant increases in institutional holdings. The institutions also bought such Canadian mining stocks as Cominco, Corona and LAC Minerals, and U.S.-based Valhi, controlled by investor Harold Simmonds. Professional managers lightened up on Metro Mobile CTS, a major operator of nonwireline cellular telephone systems. The cellular stocks have continued to take a drubbing.

What the institutions bought and sold

Big stocks[4]

Stock bought	Total quarter return	P/E	Stock sold	Total quarter return	P/E
Amax Gold	20.8%	32.4	American Greetings	9.9%	16.7
Am Barrick Resources	28.1	52.7	Avery International	14.6	16.9
Berkshire Hathaway	0.6	33.6	Comcast	–8.3	NM
Blockbuster Entertainment	3.8	34.7	Fund American Cos	–8.8	12.1
Cominco Ltd	–6.8	7.4	Laidlaw	20.7	24.3
Corona	20.7	50.0	Lyondell Petrochemical	5.3	3.2
LAC Minerals Ltd	20.7	27.9	Marion Merrell Dow	3.8	56.2
National Health Labs	22.0	20.8	Metro Mobile CTS	–3.1	NM
New England Elec Sys	12.6	14.6	Nalco Chemical	12.8	17.1
Newmont Gold	29.8	45.5	Penn Central	2.8	11.6
Turner Broadcast Sys	6.8	NM	Roadway Services	10.5	17.2
Valhi	3.9	16.4	Westvaco	–2.0	8.8

Secondary stocks[5]

Stock bought	Total quarter return	P/E	Stock sold	Total quarter return	P/E
BeautiControl Cosmetics	–11.0%	16.8	Catalina Lighting	–22.3%	11.1
Care Plus	41.6	34.9	CPB	–2.9	61.0
Cirrus Logic	–22.2	NM	Commtron	–18.8	20.8
Devcon International	–5.2	7.7	ERC Environ & Energy Svcs	4.9	7.4
Ecology & Environment	–0.6	16.6	Everex Sys	–34.0	4.5
Equity Oil	7.7	43.8	Harken Energy	2.6	1.4
Gottschalks	–11.4	21.3	Nabors Industries	55.6	4.3
HMO American	–15.3	NM	Oak Industries	–20.0	NM
Lifetime	23.7	19.8	Office Club	–0.9	6.0
Neeco	–14.9	9.4	Stoneridge Resources	–15.6	5.3
Sunrise Medical	–1.3	11.2	Turner Corp	–4.3	NM
WorldCorp	0.0	9.1	Wisconsin Toy	–3.8	5.3

[1]Total return. [2]Includes cash. [3]Real estate, foreign investments, venture capital, guaranteed income contracts. [4]Stocks with $1 billion or more in market capitalization at start of quarter. [5]Stocks with market capitalization between $40 million and $200 million at start of quarter. NM: Not meaningful.

Note: What the institutions bought and sold measures the change in the institutional holdings as a percentage of a stock's total capitalization, net of price changes. Data for quarter ending 12/31/89. Prepared by the Trust Universe Comparison Service (TUCS), a service of Wilshire Associates, Santa Monica, Calif.

Statistical Spotlight

Master limited partnerships were peddled as yield vehicles. Yield they do have, but their total return is often miserable. Moral: Don't buy on the sole basis of yield.

Very limited partnerships

By Christopher Palmeri

MASTER LIMITED partnerships, one of the great financial gimmicks of the 1980s, were supposed to be a godsend to investors. MLPs were corporations or divisions of corporations that reorganized as partnerships, so that they would pay no corporate tax and therefore have more cash to pass along to holders. And so they were sold on yield. Santa Fe Energy Partners came out in 1986 at a price per unit of $20 and a fat distribution of $2.88 a year. Allstar Inns came out in 1987 at $12.50 per unit and a dividend of $1.38 a year.

Where are these MLPs now? In the dumps. Santa Fe is now trading at 7¼, Allstar at 1½.

These are among the worst of the lot, but the overall picture is pretty grim. A study of 90 MLPs conducted by FORBES and Wilshire Associates shows that the genre has performed very poorly of late. The 90 securities had a total return of only 14% last year, compared with a 29% return for the stock market as a whole. Total return is the change in stock price with dividends reinvested.

Master limited partnerships are mercifully on the way out, a victim of 1987 tax legislation. Last year, according to Securities Data Co., only 5 new MLPs were introduced, against a high of 32 in 1987. But their history provides a lesson for investors as important as ever. That lesson is: Don't shop for yield. The failing of master limited partnerships—and of any number of other high-yield products, including junk bonds—is that their juicy double-digit yields may very well be eaten up by a withering stock price. If the yield is coming not out of earnings but out of hits to the capital account, it is an illusory yield. Cashing the big distribution check amounts to running in place.

Many master limited partnerships appear to have been either overpriced when they were first offered or mismanaged since. And the investor has precious little hope of rescue from a takeover. "These are passive investments. You don't get a vote," observes Burl East, a vice president at Bateman, Eichler in Los Angeles. He adds: "Most of these were designed to create fees for the general partners. The managements raped their unitholders simply because they could."

When many partnerships became public they paid dividends that their operating businesses could not support. They have filled the gap by borrowing, often from their general partner, or by selling assets. Witness the case of T. Boone Pickens' once high-profile Mesa Limited Partnership. It was formed in 1985 when Mesa Petroleum changed from a corporation to a master limited partnership. The annual distribution of $2 a unit was based on the expectation of higher prices for energy and energy assets. It was something like spending next year's paycheck. In September 1989 Mesa cut its distribution from $2 to $1.50. Late last year the distribution was cut entirely.

Analyst William Fellows at San Francisco-based Montgomery Securities has worked out a cash flow formula for MLPs that looks a lot like junk bond analysis. To Fellows the big question is whether the company is going to meet its distribution payment. In his analysis, Fellows looks at the company's free cash flow. He takes net income and adds back noncash charges like depreciation and amortization, then he subtracts an estimated figure for capital expenditures needed to maintain the property and keep the business going.

One of the master limited partnerships Fellows watches is Motel 6, a chain of low-cost motels that was acquired by Kohlberg Kravis Roberts & Co. Part of the chain was taken public in 1986. Since then cash flow has grown about 23% a year. However, it won't be until this year that Motel 6's free cash flow will come close to covering its distributions to shareholders. The company has been borrowing extensively to make up the difference.

The table samples five master limited partnerships whose projected cash flow for 1990 will not cover the current distribution. The outrageous yields on these issues go hand in hand with sharp price declines since their initial public offering. ■

Whom are they kidding?

Below are five master limited partnerships that are paying out more cash to their shareholders than their operating businesses generate. Is it any surprise that their stock prices have fallen?

Company/business	Unit price IPO	Unit price recent	Cash flow 1989	Cash flow 1990	Distribution	Yield
Cal Fed Income Partners/real estate	10	6⅛	$0.10	$0.10	$1.00	16.3%
Diamond Shamrock Offshore/oil	20½	6¾	1.70	1.85	2.80	41.5
Forum Retirement Partners/real estate	12¾	3⅛	0.73	1.16	1.35	43.2
La Quinta Motor Inns LP/hotels	20	7⅜	1.00	0.70	2.00	27.1
Prime Motor Inns LP/hotels	20	9⅛	1.05	1.10	2.08	22.8